



Battle Strategies: Winning at Patent Litigation

The tactics involved with pursuing patent litigation vary in different countries. **Johnny Chan** looks at various jurisdictions and gets expert advice on the art of the lawsuit.

The cost and complexity of patent litigation have increased in recent years, while relevant pleading standards differ across the region. Recent developments mean that patent litigation is an ever changing landscape.

There have been two developments in South Korea that are expected to impact how patent disputes are litigated. Firstly, jurisdiction for infringement cases was consolidated.

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- Jae Hoon Kim, managing partner,
Lee & Ko, Seoul

South Korea has traditionally operated under a dual-track approach to resolve IP disputes. Under this system, infringement actions are tried exclusively before the regional district courts. The decisions from there are appealed to the

High Court and then to the Supreme Court. Meanwhile, patent invalidation actions are tried exclusively before an administrative body, the Korean Intellectual Property Tribunal (KIPT), within the Korean Intellectual Property Office (KIPO). The KIPT's decisions may be appealed to the Patent Court and then to the Supreme Court, says Jae Hoon Kim, managing partner at Lee & Ko in Seoul.

In 2015, the Korean Civil Procedure Act and Court Organization Act were amended to consolidate the jurisdiction over infringement cases – limited to disputes over patent, utility model, trademark, design, and plant variety rights – with five regional district courts, namely, the Seoul Central, Daejeon, Daegu, Busan, and Gwangju district courts. A patentee seeking judicial relief in these infringement cases can bring a lawsuit at any one of these five regional district courts, provided that patentee satisfies venue requirements, Kim says. “In this regard, Seoul Central District Court is unique among the five in that it can hear any infringement cases without regard to the venue requirement.”

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More significantly, all appeals from the five regional district courts will be heard by the Patent Court rather than at the High Court. Meanwhile, appeals from the KIPT will continue to be heard by the Patent Court, Kim says. “Therefore, there is now

a consolidated jurisdiction at the intermediate appellate level where all appeals from both the five regional district courts and KIPT will take place at the Patent Court.”

The Patent Court’s exclusive jurisdiction will apply to (1) all district court cases filed on or after January 1, 2016; and (2) all district court decisions rendered on or after January 1, 2016. “The consolidation of intermediate appellate jurisdiction at the Patent

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- Max Ng, managing director,
Gateway Law Corporation, Singapore

Court is expected to eliminate the possibility of any inconsistency that could arise at the appellate level under the traditional dual-track system, and further, promote and develop expertise at the Patent Court for adjudicating IP disputes,” says Kim.

The second development has been the relaxing of the burden of proof in proving infringement and damages. There is no US-style discovery in South Korea and although there are several civil procedural mechanisms, such as court order for submission of relevant documents, patentees (the plaintiffs) often face difficulties in proving infringement or damages amount, especially if the accused product or process is not publicly available. “The

difficulties for the patentees are exacerbated by the fact that the alleged infringers (the defendants) will resist production of relevant documents by asserting that those documents contain trade secrets,” Kim says. “Under the current law, no substantial sanctions exist if the alleged infringers refuse to produce the requested materials.”

To alleviate this burden of proof, South Korea’s patent law was amended in 2015 to allow for the court, upon the patentee’s request, to compel the alleged infringer to submit materials, including but not limited to documents, necessary for proving patent infringement or damages amount. Moreover, if the materials (including documents) are necessary for proving infringement or establishing the damages amount, the producing party – that is, the alleged infringer – cannot refuse production by asserting that the requested materials will result in the disclosure of trade secret, says Kim.

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Also, the Korean patent law currently provides that a court may regard the contents of the materials to be proven if the ordered party refuses to produce the requested material without justification. With the amendment, if it is significantly difficult for the requesting party to prove its arguments without the requested materials, then the requesting party’s allegations that were to be proved with that material can be deemed as true.

“As you can imagine, this relaxed burden of proving infringement and damages amount has the potential of dramatically shifting the dynamics of patent litigation, at the initial stages of the patent litigation, in particular, for the patentees,” Kim says. “These amendments took effect on June 30, 2016.”

Alternative Dispute Resolution

There are jurisdictions expanding their scope of ADR, while others recognize and have it, in some ultimately it is the court procedure that provides the best outcome. Singapore continues to lead in arbitration and mediation. “The increasing work in this area points to many local clients preferring to use ADR where available,” says Max Ng, managing director at Gateway Law Corporation in Singapore. “But if ADR is impossible, many companies still prefer to have their disputes resolved through the court in Singapore.”

The situation in Thailand is different. “While ADR is recognized and used in jurisdictions like Thailand, it is not the best course of action that most people will choose - many ADR cases will end up in the courts anyway for enforcement,” says Panisa Suwanmatajarn, senior associate at Siam Premier International Law Office in Bangkok. “Moreover, all government agencies are prohibited from choosing ADR unless the Cabinet approval on a case by case basis is obtained.”

There be Trolls

Non-practicing entities’ bad faith and willful misconduct are very difficult to prove and that easily tilts the playing field in their favour as they have little to lose in asserting patents widely, says Suwanmatajarn.

In jurisdictions such as Singapore, “NPEs have yet to enter our market and engage in the court system, in any big way, probably due to the fact that losing parties are expected to pay the cost of the winning party,” Ng says. “Our legal system further does not



Trolls can be a problem when it comes to litigation.

allow for contingency fee arrangements, but this situation may perhaps change in the future.”

A legal system where the loser typically pays the winner's costs makes patent owners understandably more wary of entering into the arena of patent litigation. In Malaysia, losers

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Eakin McCaffery Cox, Sydney

are also expected to pay costs. The current patent legislation offers limited protection against the activities of NPEs. “The most robust defense available against an infringement claim is a counter claim to invalidate the patent or instituting proceedings to obtain a declaration of non-infringement,” says Lin Li Lee, head of the IP & technology practice group at Tay & Partners in Kuala Lumpur. “These remedies, often costly and time-consuming, are unlikely to be able to meet the onslaught of NPEs, when they come. A more gripping measure would be to compel NPEs to grant a compulsory license to the person practicing the patented invention. A compulsory license may be applied for where there is no production or application of the patented product or process without any legitimate reason or where there is no product produced in Malaysia under the patent for sale in the jurisdiction or there are some but sold at unreasonably high prices or do not meet public demand without any legitimate reason.”

“The Patents Act also recognizes the rights derived from prior manufacture or use where an entity may continue to exploit a patented invention if it has, in good faith, been using the product or process or making serious preparations to use the same as at the priority date of the patent application,” says Lee. “It must however prove that such use is in Malaysia and its knowledge of the invention was not a result of the disclosure pursuant to *inter alia*, acts of the applicant or an abuse of rights of the applicant. In Malaysia, NPEs asserting patents are exposed to an almost certain risk of having to pay the other party's cost if they do not succeed.”

NPEs appear to be more prevalent in the US than in other parts of the world, due to the nature of the American legal system and in particular, the rule that parties are to bear their own legal costs in a civil action, known as the ‘American Rule’. “This creates a propitious environment for NPEs to operate as the risk of cost being awarded against them if they lose the case is

non-existent,” says Lee. “The exception to this in patent litigation is Section 285 of the Patents Act which allows district courts in ‘exceptional’ cases to grant attorney's fees to the successful party. The concept of bad faith and willful misconduct arises from the interpretation of the phrase ‘exceptional’ case which in *Brooks Furniture Mfg. v. Dutailier Int'l.*, has been defined to mean ‘material inappropriate conduct’ by the plaintiff which may include fraud or inequitable conduct in procuring the patent, misconduct during litigation, and vexatious or unjustified litigation, or the suit was ‘objectively baseless’ and ‘brought in subjective bad faith’. This has subsequently been relaxed by the court in *Octane Fitness v. Icon Health & Fitness*, which held that an ‘exceptional’ case is simply one that stands out from the rest relative to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated. The determination is made

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on a case-by-case basis, upon a preponderance of the evidence that considers the totality of the circumstances. Once a case is deemed exceptional, the court has discretion to determine an appropriate attorney's fee to be awarded against the losing party.”

Reasonable Costs

While litigation in Australia will generally result in costs following the event, this is not always the case in patent litigation says Gregory Ross, a partner at Eakin McCaffery Cox in Sydney. “That is, a party that has successfully defended a patent infringement action will not necessarily be awarded their legal costs of the litigation. If a defendant has raised grounds as to

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Tay & Partners, Kuala Lumpur

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the patent's invalidity and some of the defendant's objections or arguments against infringement are unsuccessful, the court may determine that the defendant is not entitled to the costs regarding the unsuccessful grounds or may award costs in favour of the plaintiff if the grounds raised were improper or unreasonable.”

Australian legislation requires that, if an exclusive licensee of a patent commences an infringement action, then a patentee must be joined as a defendant to the proceedings, unless it is

a plaintiff. In that situation, a patentee joined as a defendant will not normally be liable for costs unless the patentee files an appearance and participates in the proceedings, says Christina Cavallaro, an associate at Eakin McCaffery Cox. "As patent litigation can be expensive, complicated and time-consuming, a patent holder should consider commercial actions to enforce a patent (such as a 'cease and desist' letter or 'offer to license') before expending in instigating proceedings."

The Supreme Court of Japan ruled on February 27, 1969 that a tort victim, if being forced to bring a case before court, may claim reasonable attorney's fee as damages from the tortfeasor, says Kei Iida, an attorney at law and patent attorney at Nakamura & Partners in Tokyo.

In patent infringement cases, the awarded reasonable attorney's fee is usually around 10% of the other awarded damages if such sum is within around ¥100 million (US\$949,000). "But recently, the awarded reasonable attorney's fee often becomes substantially more than 10%, especially if the other awarded damages is less than ¥10 million," Iida says. "If the

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other awarded damages are over around ¥100 million, the sum of awarded reasonable attorney's fee tends to be less than 10%."

The way to approximate the winning patentee's attorney's fee has recently been studied by the IP Strategy Headquarters of Japan and will be further studied before the Industrial Structure Council of the Ministry of Economy, Trade and Industry, says Iida.

The Supreme Court of Japan later ruled on January 26, 1988 that to bring a case before the court constitutes a tort only if it is extremely unreasonable to do so in light of the purpose and spirit of judicial system, Iida says. "Thereafter, there has been no case where the court found that it was extremely unreasonable for a patentee to bring a case before the court against an alleged infringer and the losing patentee should pay reasonable attorney's fee to the winning alleged infringer."

Successful litigants are generally awarded costs in Singapore, Ng says. "That said, the sums that are generally awarded as such are usually far less than the amounts that have been or will be spent on legal fees. This is due to the different manner in which such costs are calculated and awarded after taxation."

Wishlist

Practitioners, mostly, live in hope that changes in their respective jurisdictions can further ease the litigation process.

Pakistan has a good set of IP laws, but the implementation proves a challenge. "Pakistan's judiciary is extremely overburdened and, as such, litigation is normally a very lengthy

process," says Khawja Shoaib Mansoor, an associate at Vellani & Vellani in Karachi. "Secondly, not all courts are well aware of, or understand the importance of IP enforcement. Final disposal of a civil suit for infringement (in the first instance) may take as long as eight to 10 years. However, in cases where the plaintiff has a *prima facie* case, the courts are prompt in granting interlocutory injunctions."

The Trade Marks Registry is digitizing its records and so far it has started to upload digital copies of trademark journals on its website and is aiming to digitize its entire records by the end of this year, says Mansoor.

The most significant change in Pakistan's IP laws is the recent constitution of IP tribunals under the Intellectual Property Organization Act, 2012, Mansoor says. "Each of the provinces is now required to have a separate IP tribunal wherein all cases in respect of infringement will be heard and decided. But at present the only functional tribunal is the one in Lahore, Punjab, where all court cases pending with Courts of District and Sessions Judges of Punjab have been transferred. All new cases of infringement in the province of Punjab are now being filed with the IP tribunal based in Lahore."

"Constitution of the said tribunals appears to be a big step in the right direction," Mansoor says. "It would be beneficial as such tribunals are expected to be well versed with the IP laws and expeditious in dealing with IP disputes."

In patent litigation, the patentee often has the burden of proof against allegations placed upon him, but in the Taiwan Patent Act or other regulations related to patent litigation such as the Code of Civil Procedure, no sufficient measures are provided for the patentee to acquire adequate evidence to prove infringement, says Paul C. C. Chen, a

patent attorney at Louis International Patent Office in Taipei. "Therefore, the probability of the patentee's winning chance in the IP court of the first instance is rarely up to 25%. Furthermore, this failure to protect an exclusive right may have a high correlation with a domestic patent application which has been reduced dramatically in Taiwan. Thus, it is critical to introduce new rules or regulations which provide patentees better measures to acquire evidence during the litigation process."

A speedy trial and quick decision as well as prompt evidence gathering in a legitimate affordable timeframe are the only measures to minimize the loss of overall welfare economics and business value owing to the patent infringement. In the current scenario in Taiwan, the concerned parties are not compelled to provide any evidence prior to the order by the court. It often becomes difficult for the other side to find such evidence as a willing party can exclusively shield an important piece of evidence that may harm their claim.

"Adopting discovery rules similar to those as specified in rules 26 to 37 of Title V of the Federal Rules of Civil Procedure of the US will create a new regulation for patentees to gain sufficient evidence in litigation," Chen says. "On the ideological basis, these rules shall compel concerned parties to share supporting evidence with the opposite party before trial and authorize patentees the right to find more evidence. Accordingly, a patentee can provide more evidence to persuade the court that the defendant infringes his patent. Most of the US state courts have adopted a similar version of the Federal Rules which

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initiates a discovery procedure that significantly reduces the time span required for the verdict.”

Nevertheless, an exact adoption of the US discovery concept might not be feasible in Taiwan, in view of complexities and obstacles of the litigation process in addition to various values of the society, Chen says. “Modification is required to fit the

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imported legal support system - it will be challenging for the legislative department to make a proper modified version and the achievement will rely on the wisdom of the new government.”

On the other hand, jurisdictions such as Vietnam are lagging far behind in terms of litigation and IP court establishment.

“IP disputes should be treated as other disputes when it comes to resolution by the courts. However, Vietnamese judges lack experience in handling such cases, especially regarding patents,” says Nguyen Thi Thanh Hai, a partner at Ageless IP Attorneys & Consultants in Hanoi. “The government is therefore expected to engage plans and projects to improve the judges’ knowledge and experience in IP, in order to establish an IP court.”

Another way to ease the litigation process is to encourage civil proceeding over administrative relief and to apply criminal prosecution when needed.

When it comes to infringement, most patentees refuse to file for civil proceeding as it is time- and money-consuming with the inexperienced Vietnamese courts. In administrative action, if the enforcement body sees patent infringement, it will likely impose administrative sanctions which include, inter alia, a monetary fine of up to VND500 million (US\$24,800)

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and destruction of the counterfeit and their raw materials. Once destroyed, the administrative action would be over and hence, few infringement claims have been handled by the local court.



It can take more than the savings from a piggy bank to fund litigation

Moreover, administrative relief merely requires the penalty but no compensation for the patentee, Nguyen says. "In Vietnam, the power to impose the strident penalties for IP violation belongs to criminal prosecution. Under Article 170a and 171, copyright violation and IP fraud can be penalized criminally. At present, due to a lack of guidelines and an inconsistency in regulations on the actions, criminal action against IP crimes is practically unfeasible or very hard to impose." As a result, it is vital to encourage patentees to choose civil proceeding over administrative relief, says Nguyen.

There are also calls for the length, process and backlog of IP applications to be cut. "The understaffed National Office of Intellectual Property of Vietnam (NOIP) does not only delay in granting patents but it also affects the quality of the examinations,

since the officers have insufficient time for a huge backlog," says Nguyen. "It is not far from the truth that the holdup of applications might be regarded as counter-productive to applicants." Delays in granting a patent also causes material damages such as loss of property, income, or opportunities, and spiritual damages through loss of honor, dignity, prestige, and reputation, says Nguyen.

In 2014, NOIP reported that only 706 out of 1,362 claims for damage were examined - that is, only about 50% of the disputes were settled. Legislation needs to be amended to streamline both the application and the examination process with enough experienced staff members, says Nguyen. "These are considered as the major obstacles in the patent system that may lead to pessimistic consequences for innovation development." AIP

